

# ASSIGNMENT 3

## Part A: Financial Statement Analysis and Investment Report Assignment (50%)

### Part A: Learning objectives assessed

- Interpret and analyse financial statements to draw conclusions about a business' financial performance (LO2), demonstrate an understanding of accounting information (GA1) and interpret the significance of accounting information, use critical thinking skills to consider that information and apply it to solve problems (GA2)
- Succinctly and effectively communicate accounting information to different audiences (L04), preparing written documents that are clear and concise (GA3).

### Required:

Compare two public Australian companies in a similar industry namely, Qantas (<https://www.qantas.com/travel/airlines/about-qantas/global/en>) and Virgin Australia Holdings ([www.virginaustralia.com](http://www.virginaustralia.com)). This means that the companies are listed on the Australian Securities Exchange ([www.asx.com.au](http://www.asx.com.au)) and their annual reports can be downloaded from the ASX or company web-sites.

1. For each company, prepare a table summarising three years of financial statements (the income statement, balance sheets and cash flow statements) and prepare a ratio analysis of each company's financial position and performance. Submit this as an **Appendix** with your assignment (10 marks)
2. Report #1: Based on the financial statements and the ratios you have calculated, prepare a report to the board of directors of one of the two companies, outlining relevant risk and return issues and offering any recommendations you feel are appropriate. (Maximum of 750 words) (20 marks)
3. Report #2: Your sister has no knowledge of accounting but wants to start investing in the share market. She asks you whether she should invest in one or both of the companies you analysed. Compare and contrast the two companies, drawing on the financial statements, the ratios you have calculated and any other relevant information you have found, to identify and explain whether your sister should (or should not) invest in one or both of the companies. (Maximum 500 words) (20 Marks)

### What you need to submit for Part A

In a single word document, submit:

- Report #1: Business report to the Board of Directors.
- Report #2: Investment analysis (for your sister).
- Appendix: accounting analysis, including calculations (as an table with notes)

## **Part B: Management accounting for decision making (50%)**

### **Part B: Learning objectives assessed**

- Interpret and utilise management accounting information to support planning and control decisions in a risk environment (LO3),
- Demonstrate an understanding of accounting information (GA1), interpret the significance of accounting information, use critical thinking skills to consider that information and apply it to solve problems (GA2) and succinctly and effectively communicate accounting information to different audiences (L04), preparing written documents that are clear and concise (GA3).

### **Required:**

Walk Safe Ltd buys safety boots for \$18 a pair and expects to sell 4,000 per month at a price of \$32 per pair. Management has budgeted for additional variable costs of \$3 per pair and monthly fixed costs of \$9,000 (\$3,000 selling costs, \$4,000 administration costs and \$2000 depreciation costs) for sales volumes between 0 and 5,500 pairs.

Walk Safe Ltd is about to prepare the budget for the coming year and is considering various options. **Consider each of the following questions as a separate option available to Walk Safe Ltd.** The questions do NOT build on each other.

1. Based on the estimates provided, calculate the break-even point in units and dollars, and the total expected profit for the month. (5 marks)
2. Walk Safe Ltd is considering reducing its selling price from \$35 per pair to \$30 per pair. It expects this to result in a 30% increase in sales. What is the new breakeven point? Should Walk Safe Ltd choose this option? Why/why not? (5 marks)
3. Exploring all options, Walk Safe Ltd found a new boot-maker who could supply the boots for \$5 less than the current supplier. Calculate the new breakeven point in units. Should Walk Safe choose this option? Why/why not? (5 Marks)
4. Walk Safe Ltd plans to advertise in industry magazines. The advertising campaign will add an additional \$1,500 per month to monthly fixed costs. Calculate the new break-even point in units. Should Walk Safe choose this option? Why/why not? (5 Marks)
5. In addition to selling safety books, Work Safe Ltd wants to start selling work socks. Walk Safe Ltd can purchase the socks for \$2 per pair and will sell them for \$3 per pair and expects to sell 3 pairs of socks for each pair of safety boots sold. Additional fixed costs would be \$360 per month. Calculate the breakeven point for both boots and socks in units. Should Walk Safe choose this option? Why/why not? (10 Marks)
6. Assume management decided to set the budget using the most profitable option. Then, at the end of the first month 3,800 pairs of boots had been sold and the following information for the month was taken from the general ledger accounts:  

<i>Sales revenue</i> \$125,000	<i>Purchases (of boots)</i> \$45,500
<i>Other variable costs</i> \$12,000	<i>Fixed costs (sales)</i> \$2,500 ( <i>other F/Costs as budgeted</i> )

Prepare a flexible budget and undertaken the relevant variance analyses.  
Explain your findings. (20 Marks)

## Marking Rubric

The following is intended to provide guidance to students in completing the above assignment. It addresses Part A only. Given Part B is a largely quantitative exercise, publication of a marking rubric is not relevant.

Learning Objective	Assessment task	<50% (fail)	50-60% (Pass)	65%-74% (credit)	75%-84% (Distinction)	≥ 85% (High distinction)
<u>Prepare and classify</u> accounting information for purpose of analysis showing clear understanding (L01, GA1)	(1) Spreadsheet presentation and analysis (10 marks)	Does not show an understanding of accounting information and connection to issues of risk and return. Spreadsheet analysis may be incorrect, inaccurate/incomplete.	Reasonable analysis of the financial position of the relevant companies showing appropriate use of financial information and ratio analysis to highlight the <u>essential elements</u> of company risk and return	Good analysis of the financial position of the relevant companies showing reasonable and clear use of financial information and ratio analysis in relation to risk and return	Comprehensive and complete analysis of the financial position of the relevant companies in relation to risk and return - showing good use of financial information and ratio analysis	Very comprehensive and complete analysis of the financial position of the relevant companies and issues of risk and return - showing sophisticated use of financial information and ratio analysis
<u>Interpret and utilise</u> accounting information (L02) demonstrating ability to interpret the significance of accounting information and apply it to solve problems (GA2)	(2) Board Report (12 marks)	Failure to interpret significance of accounting information and to clearly identify relevance to management problems. No academic perspectives offered or discussion shows significant misunderstanding.	Interpretation of the accounting information to highlight issues fundamental to management problems. Understanding of business risks perspectives implicit / Discussion shows some misunderstandings of academic literature.	Interpretation and utilisation of the accounting information to comprehensively highlight issues relevant to management problems. Discussion supported by relevant academic perspectives on key business risks related to the company	Good interpretation and utilisation of the accounting information to comprehensively highlight issues relevant to management problems. Discussion supported by relevant academic perspectives and case studies on key business risks related to the company	Excellent interpretation and utilisation of the accounting information to comprehensively highlight issues relevant to management problems. Discussion thoroughly supported by insightful academic perspectives and case study examples
<u>Interpret and utilise</u> accounting information (L02) demonstrating ability to interpret the significance of accounting information and apply it to solve problems (GA2)	(3) Investor Report (12 marks)	Failure to interpret significance of accounting information and to clearly identify relevance to investor's problems. No academic perspectives offered or discussion shows significant misunderstanding to a potential investor.	Interpretation of the accounting information to highlight issues fundamental to investor's problems. Discussion shows some misunderstandings of academic literature.	Interpretation and utilisation of the accounting information to comprehensively highlight issues relevant to investor's problems.	Good interpretation and utilisation of the accounting information to comprehensively highlight issues relevant to investor's problems. Discussion supported by relevant academic perspectives and case studies on key business investor risks	Excellent interpretation and utilisation of the accounting information to comprehensively highlight issues relevant to investor's problems. Discussion thoroughly supported by insightful academic perspectives and case studies for a potential investor.

Learning Objective	Assessment task	<50% (fail)	50-60% (Pass)	65%-74% (credit)	75%-84% (Distinction)	≥ 85% (High distinction)
Demonstrate written communication skills (L03) which clearly communicate the significance of accounting information to different audiences as well as the quality and degree to which assessment brief is addressed (GA3)	(2) Board Report (8 marks) (3) Investor Report (8 marks)	Report of substandard quality / Assignment brief insufficiently addressed. Poor, unclear, and illogical presentation, which is hard to read and fails to focus on the needs of directors and the investor. Recommendations missing, include rudimentary misunderstandings or disregard the company context	Formal attempt to answer the assignment brief requirements. Presentation is logical and focus on the fundamental needs of directors and the investor. Recommendations show good understanding of key business risks surrounding the company.	Presentation is logical and competent and focus on the comprehensive needs of directors and the investor. Recommendations show good understanding of key business risks surrounding the company.	Comprehensive attempt to answer the assignment brief requirements. Good, clear, and logical presentation, which is easy to read and understand and clearly articulates how the accounting information relevant to directors and the investor. Well integrated discussion of effective risk/reward management throughout the report and the recommendations.	Comprehensive and insightful attempt to answer the assignment brief requirements. Excellent, clear, logical and professional presentation, which is easy to read and understand and clearly focus on and articulates how the accounting information relevant to directors and the investor. Insightful recommendations showing comprehensive understanding of key business risks relevant to a directors and non-expert investor.